



cutting through complexity

KPMG Common Reporting Standard Survey Report

New age of global tax reporting

kpmg.com



CONTENTS

Global strategy for tax transparency

This KPMG LLP (KPMG) survey report focuses on the views and behaviors of bank, asset management, and insurance professionals working to bring their financial institutions (FIs) into compliance with the Common Reporting Standard (CRS). The CRS is a groundbreaking regime governing the automatic exchange of tax information worldwide.

The financial world has become increasingly globalized. Today, it is common for taxpayers to hold great sums of money in FIs outside their resident country. As a result, cross-border business and access to global financial services has greatly increased. At the same time, offshore tax evasion has become a growing concern for countries around the world. Governments share an interest in maintaining the integrity of their tax systems. From that background, the CRS has emerged.

How the CRS came to be

Introduced by the Organisation for Economic Co-operation and Development (OECD), the CRS is a far-reaching international standard that almost 100 jurisdictions have committed to implement. The CRS creates a globally coordinated and consistent approach to the disclosure of financial accounts held by nonresident account holders. The pursuit of transparency hinges on mutually beneficial and expedient exchanges of account information among the governments of participating jurisdictions, supported by common due diligence and reporting obligations of FIs within those jurisdictions.

Unprecedented data exchanges

The framework of the CRS builds on the U.S. provisions commonly known as the Foreign Account Tax Compliance Act (FATCA), which obligate foreign FIs to provide the U.S. government with the names and account information of accounts held by American taxpayers.

In many jurisdictions, FATCA has been implemented under an intergovernmental agreement (IGA), pursuant to which FIs in IGA jurisdictions provide the required information to the government, which exchanges that information with the U.S. government. Under the CRS, participating jurisdictions will require their FIs to identify account holders resident in other (i.e., non-U.S.) jurisdictions and report that information for exchange.

A more transparent tax culture

In response to CRS legislation, FIs are gearing up to comply with the increased demands associated with greater tax transparency. For a snapshot of what is going on with CRS compliance practices at peer companies, KPMG polled 138 high-level tax and compliance professionals from FIs for their views and insights into what their organizations are doing to prepare for compliance under the CRS.

This survey report summarizes those findings and offers market commentary from KPMG LLP.



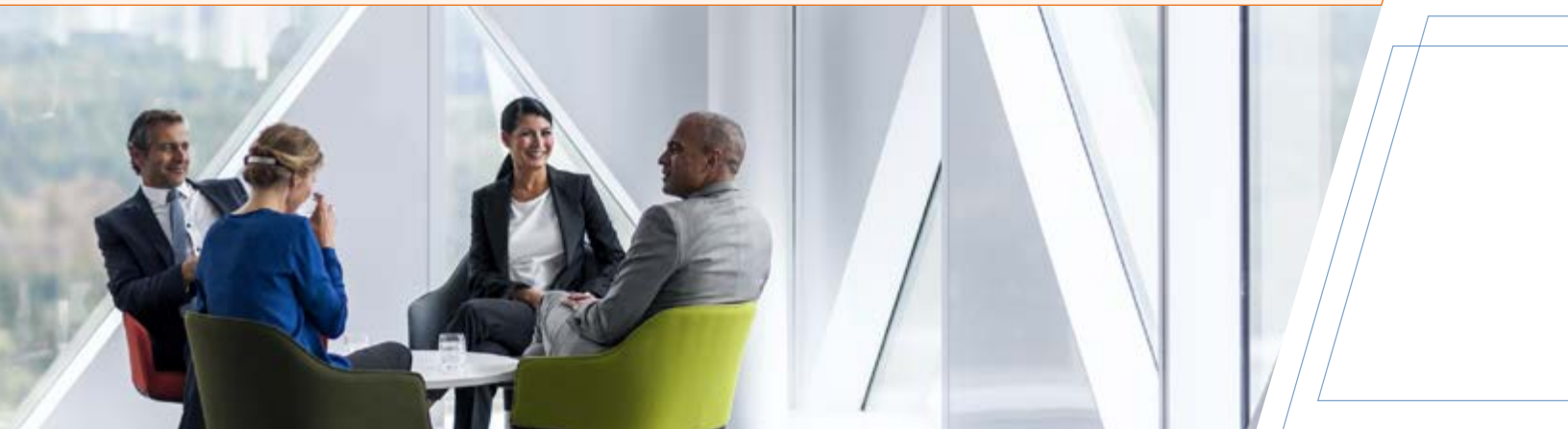
Common Reporting Standard (CRS):

KPMG survey results

The CRS is not just FATCA-PLUS – It is a major project

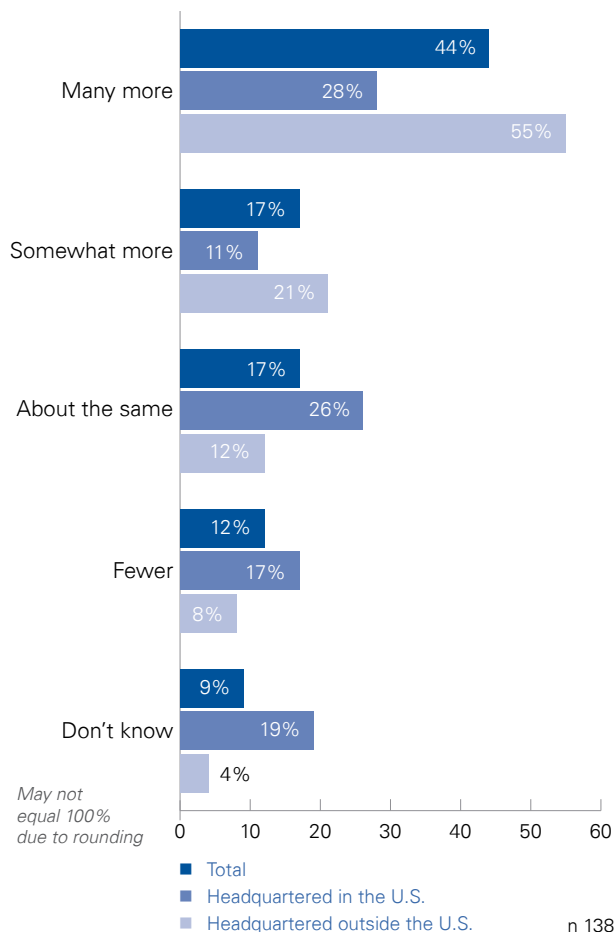
Key findings

- » 61 percent believe the CRS will impact more accounts than FATCA. [Q6]
- » 55 percent believe CRS compliance will require more resources. [Q7]
- » Of those, 65 percent of non-U.S. FIs say the CRS will be more burdensome than FATCA, compared to just 38 percent of U.S. FIs. [Q7]



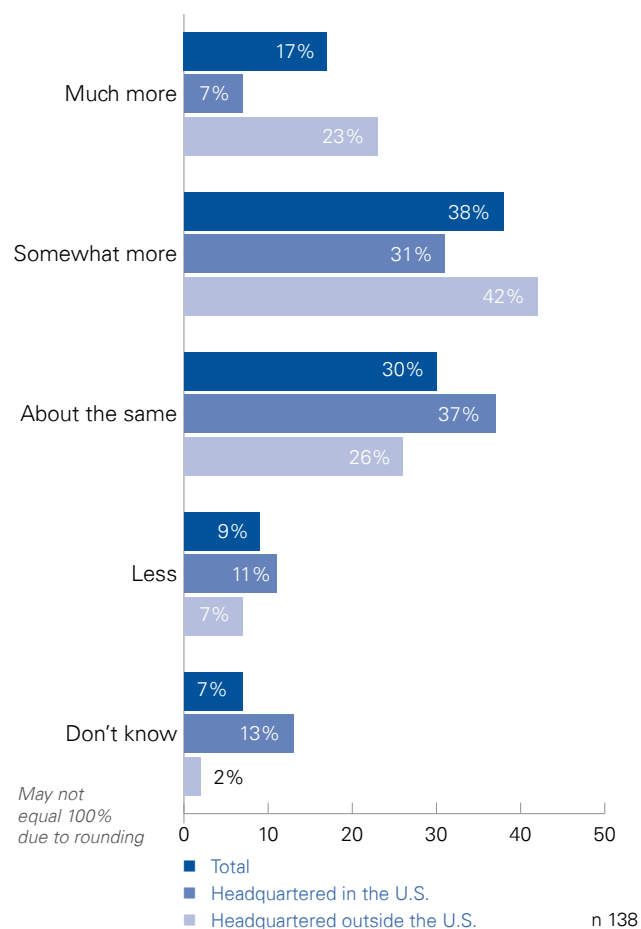
Q6

As compared with FATCA, do you think the CRS will impact more, fewer, or about the same number of accounts?



Q7

Do you believe that compliance with the CRS will require more resources than compliance with FATCA, less resources, or about the same?



Market commentary

A major undertaking. Even for those FIs that have a good handle on their obligations under FATCA, make no mistake—complying with the CRS model will be a major additional project. Although it emerges from the principles of its U.S. forerunner, the CRS will require most FIs to collect and remit much larger amounts of data on many more accounts from multiple jurisdictions.

Based on our survey results, the onset of the CRS is stirring more concern and activity outside the United States. This may be due in part to the

fact that FATCA imposes potentially significant withholding responsibilities on U.S. FIs, while the CRS does not. In addition, the United States has not yet committed to implementing the CRS for U.S. FIs. However, U.S.-based FIs with offices overseas will be obligated to comply with the CRS in implementing jurisdictions. It is worth noting, too, that the percentage of U.S. FIs answering “Don’t know” to certain poll questions was significantly higher than non-U.S. respondents. This may indicate that non-U.S. FIs are more advanced in their CRS preparations.



Ideas to consider

Explore automation options. The differences between FATCA and the CRS mean that most FIs will need to undertake significant changes to their customer onboarding, due diligence, and reporting procedures and systems. To meet these unprecedented requirements for international tax reporting, early preparation will help smooth out some of the bumps in the road that are likely to be encountered during the transition process. Because the CRS *will* disrupt business as usual, FIs must thoroughly plan in advance, allocating sufficient time to review the Standard's key components and to create a due diligence checklist of in-house disciplines directly impacted by CRS-related changes, including:

- » Technology systems
- » Operational processes
- » Management controls.

While each area is important, the sheer scale of the CRS reporting mandate will force most FIs to upgrade legacy infrastructure to create automated solutions. To streamline the path to compliance,

it is essential to involve IT professionals in order to develop an integrated, flexible architecture to accommodate these and other features:

- » Automated data extraction and verification
- » Customized work flow and escalation interfaces
- » Due diligence searches
- » Reporting and analytics engines
- » Easy-to-follow audit trails



Lack of certainty is hindering CRS compliance

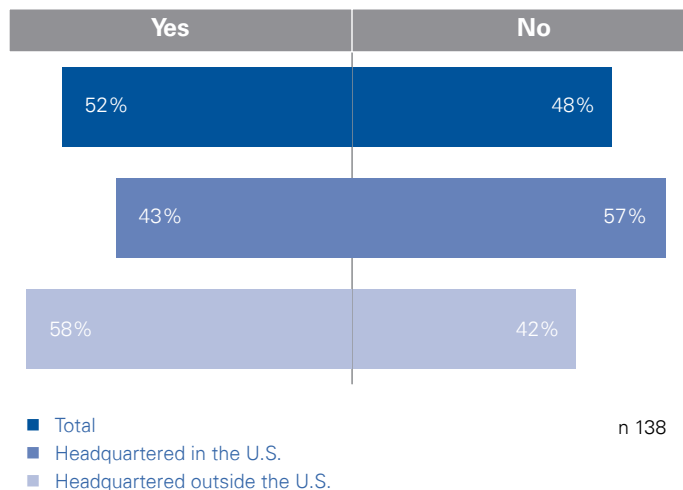
Key findings

- » 48 percent have “not started preparing” for the CRS. [Q8]
- » Only, 30 percent have “taken significant steps toward implementation.” [Q9]
- » 41 percent of non-U.S. FIs are performing “impact assessments,” compared to only 22 percent of U.S. FIs. [Q10]
- » 66 percent don’t yet know what their annual CRS compliance budget is. [Q11]
- » 71 percent believe or are “unclear” if CRS obligations will conflict with local privacy laws. [Q12]
- » 44 percent say their ability to meet onboarding objectives by the target date will depend on the guidance they receive beforehand. [Q13]



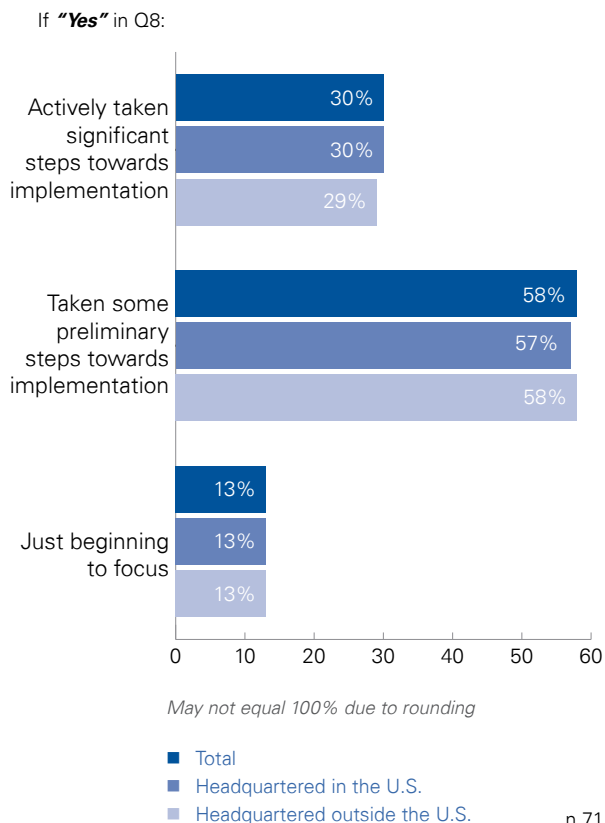
Q8

Has your organization started dealing with CRS compliance?



Q9

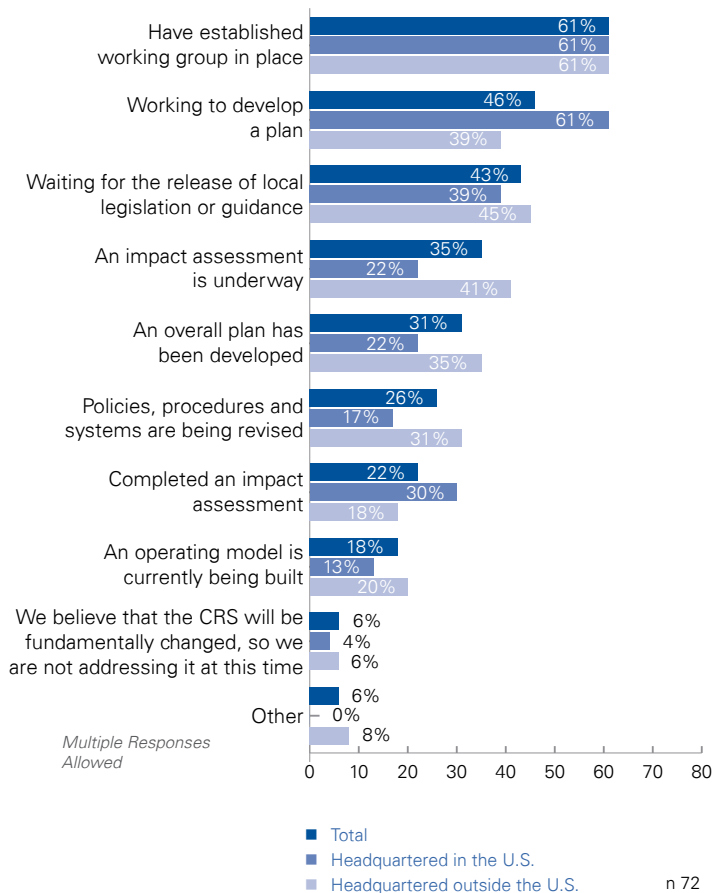
How prepared for/how far is your organization in the implementation of the CRS?



Q10

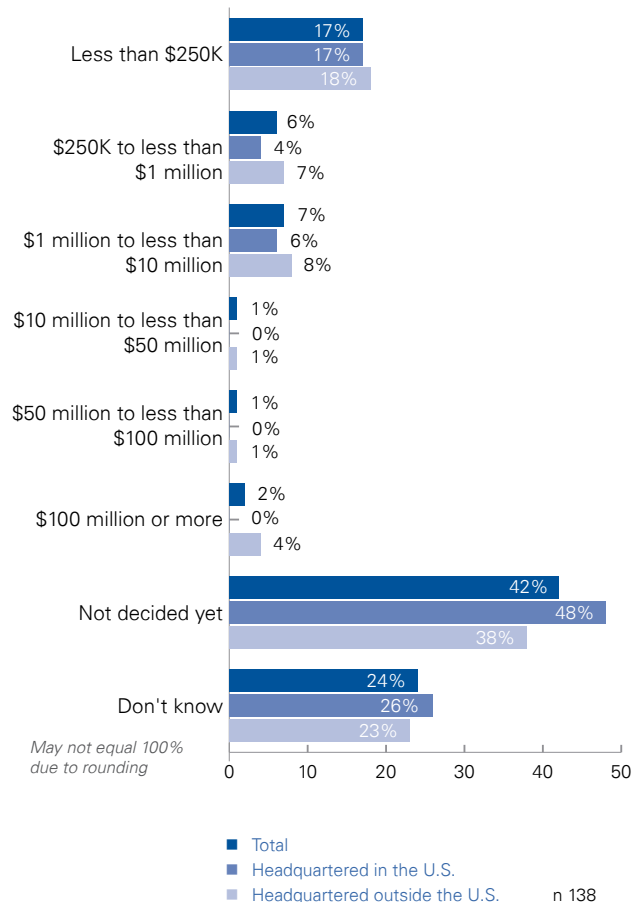
**What specific steps has your organization taken?
Select all that apply.**

If "Yes" in Q8:



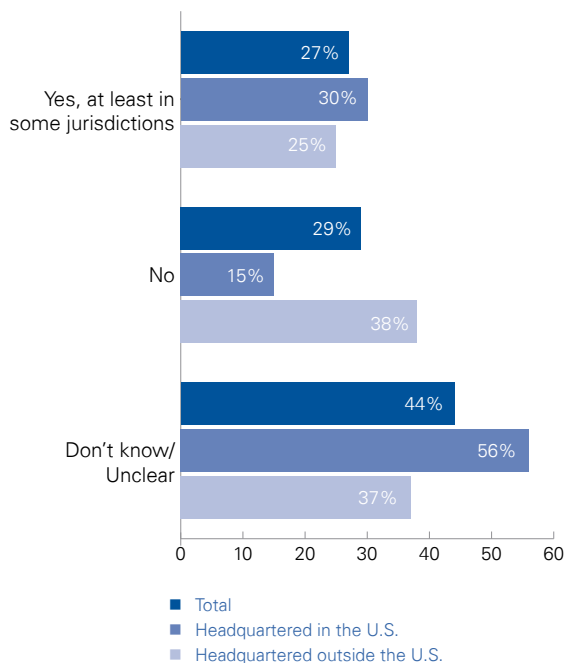
Q11

What budget has been or will be allocated for CRS compliance?



Q12

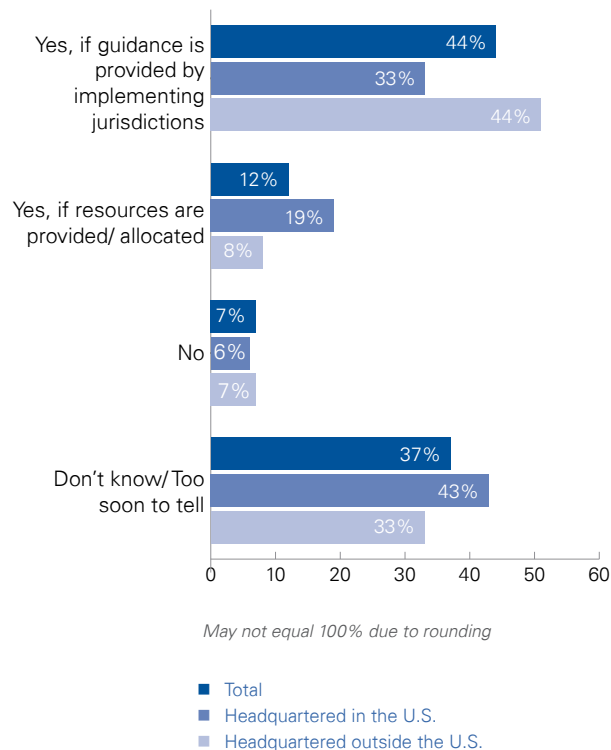
The Commentary to the CRS contemplates a “wider approach” under which financial institutions may collect residence information for all new account holders to prevent the need to re-review accounts each time a new jurisdiction enters into an exchange agreement. Does such an approach conflict with privacy and/or secrecy requirements in your country(ies) of operation?



n 138

Q13

Will you be able to meet the CRS requirements by the January 1, 2016, deadline for new onboarding procedures in applicable jurisdictions?



n 138



Market commentary

Stay informed. Although the OECD has published significant guidance under the CRS over the past year, most implementing jurisdictions have not yet enacted legislation or published local guidance. Lack of CRS guidance has made building a systemic solution to compliance a challenge, particularly for smaller FIs in early-adopter jurisdictions. For the latest CRS guidance, regularly visit www.oecd.org, follow industry groups, and speak to tax regulators about what to expect next.

Ideas to consider

Use survey report as an ice breaker. In the face of “FATCA fatigue” in many FIs, getting attention and resources from upper management for CRS compliance may be a challenge. Consider using this survey as a way to kick-start or reinvigorate the internal conversation. Be proactive in developing your organization’s CRS plan and involving the right stakeholders, from tax and IT to legal/compliance to operations. Keep in mind that some jurisdictions are not implementing until 2017, so the CRS will be an active topic for some time.

Outline basic strategy. Even while awaiting binding guidance from implementing jurisdictions, FIs should begin the process of developing a plan to update their systems and procedures to onboard customers, manage data, and retrieve and report account information. Based on our survey, participation by “legal/compliance” and “operations” is critical to achieve CRS compliance. Consider also how the project will be managed globally within your organization. Depending on the size and organization of the FI, the strategy likely will require some balance between centralized and decentralized project governance.

Perform impact assessment. An “impact assessment” can help identify gaps in compliance capabilities and expertise. By isolating any potential shortfalls, FIs can focus on individual business units or geographies to determine if additional resources—money, time, personnel—may be needed to meet time-sensitive goals.

Create a calendar. To help ensure a more seamless management flow, publish a planning calendar that maps out key dates and milestones. Make it visible to all internal business units to help each stay on track and raise concerns when targets appear off. Think of your planning calendar as a flexible working document that may be updated periodically to adjust to changing business conditions.

Establish communications protocol. Even after January 1, 2016, other CRS changes may affect your FI’s compliance strategy. Establish a timely communications mechanism to alert all parts of your organization as to the latest CRS disclosures and procedure updates.



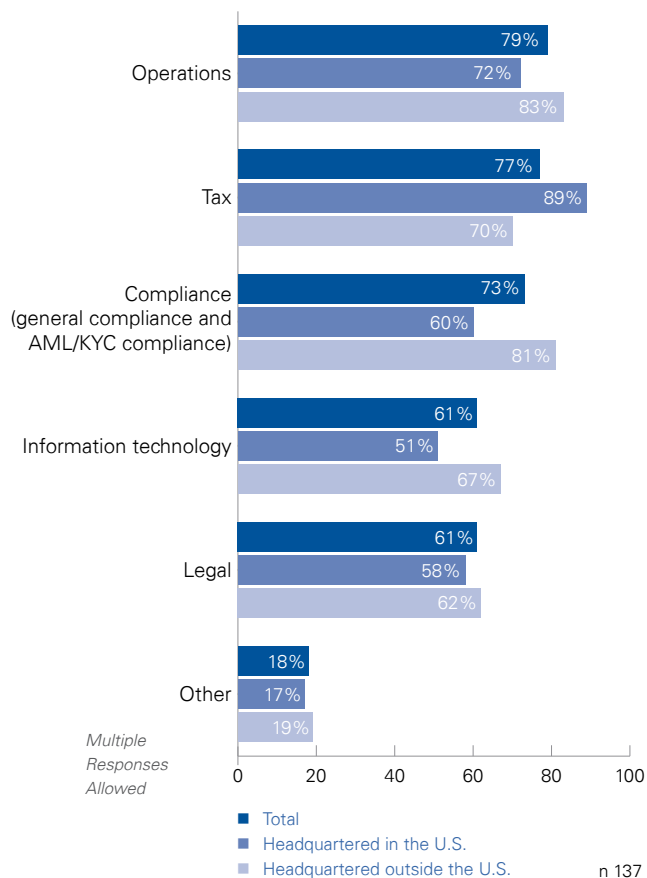
The CRS impacts your whole organization on a global scale

Key findings

- » Over 60 percent of respondents who perform operation, tax, compliance, information technology (IT), and legal functions say they are currently participating in CRS implementation. [Q14]
- » Among internal departments directly affected by the CRS, operations (69 percent) is “most impacted,” followed by tax (50 percent), compliance (44 percent), IT (36 percent), and law (7 percent). [Q15]
- » 51 percent rate CRS awareness among top executives at “high” to “medium,” and 47 percent at “low” to “none.” Significant differences exist between response rates from FIs headquartered inside and outside U.S. borders. [Q16]
- » 72 percent expect their CRS management plan to contain some element of “global centralization.” [Q17]
- » 55 percent of U.S.-based FIs identify their “tax” group as project sponsor, while 48 percent of non-U.S. FIs identify “compliance” as leading their CRS implementation plan. [Q18]

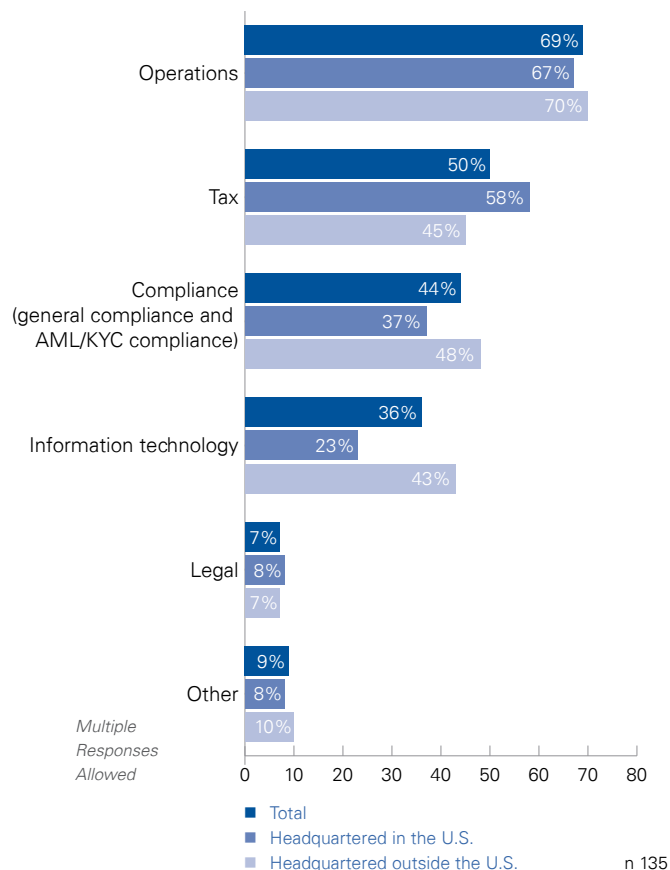
Q14

Who participates in CRS implementation at your institution? Select all that apply.



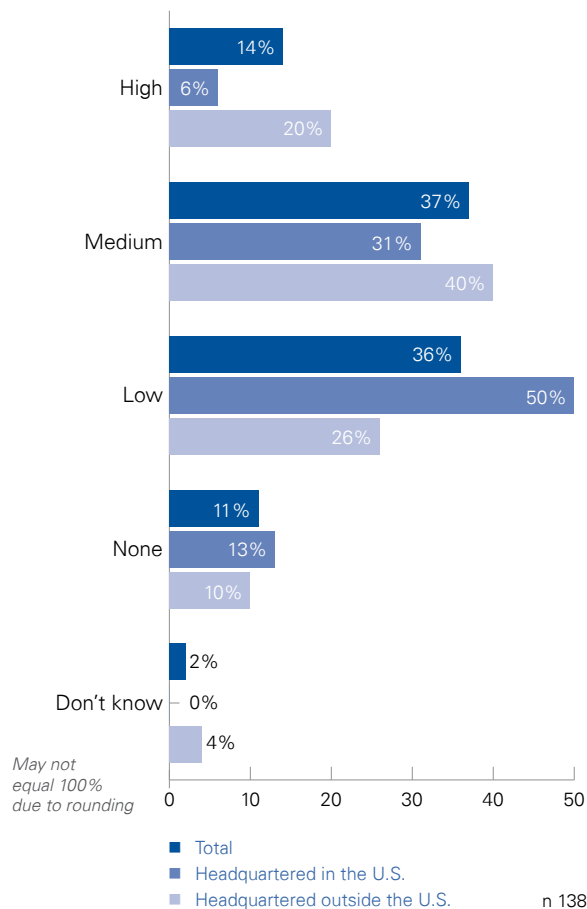
Q15

Which group within the organization will be the most impacted by the CRS? Select all that apply.



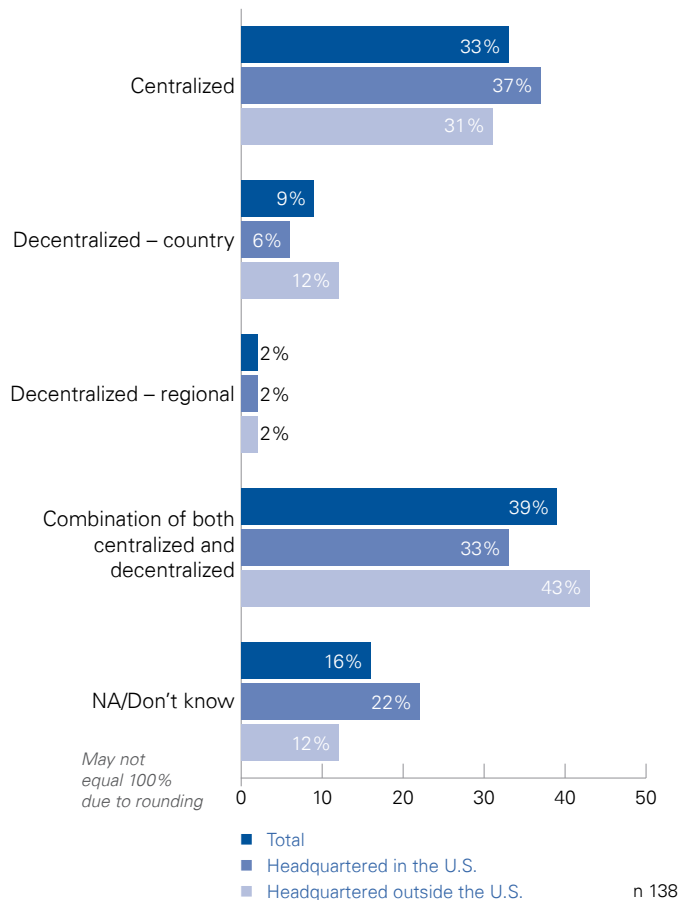
Q16

What is your understanding of the level of CRS awareness at the Executive/Management level?



Q17

What implementation plan does your organization expect to follow for the CRS?



Who is the project sponsor for CRS implementation at your institution? Select all that apply.

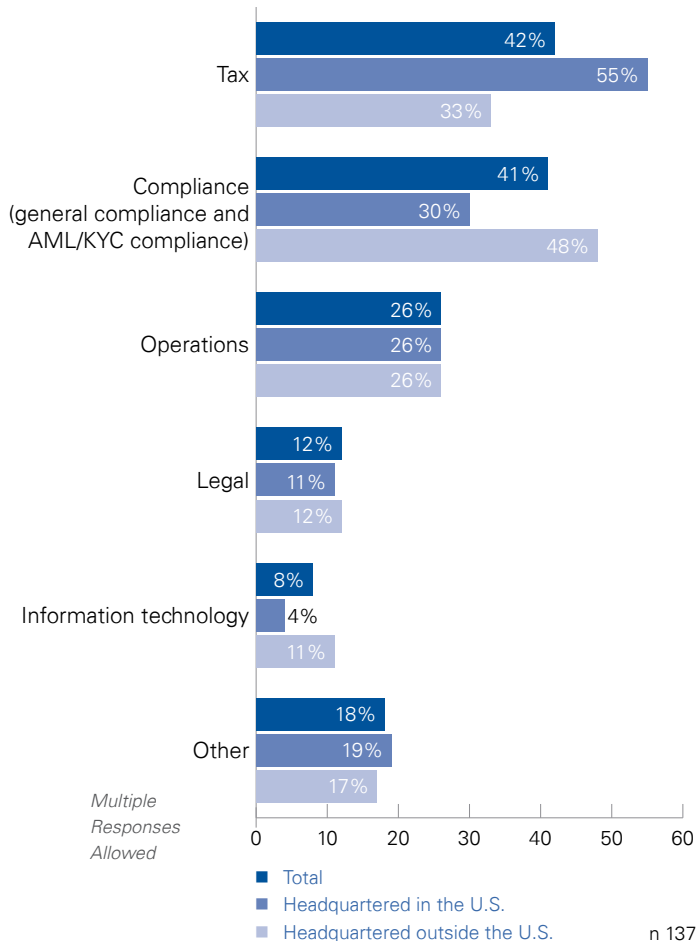
Market commentary

Thinking globally. For thousands of FIs, the CRS will likely result in a sharp rise in the volume of data to be reported. CRS compliance poses a monumental task requiring full commitment within each organization. Virtually everyone, including front-line employees who interact daily with customers, must be trained to understand their roles in this highly interconnected structure, in order to ensure compliance in as cost-efficient a manner as possible.

Ideas to consider

Assembling the right team. According to survey results, it is important to clarify which departments and personnel will act as project leaders and which will serve in more supportive roles. Before you get into specific tactics, address these broader questions:

- » What department should serve as project sponsor? What other departments or functions should be involved?
- » How will your CRS project and budget be governed?
- » Should you embrace a centralized or decentralized management model?



Get ready for the CRS revolution

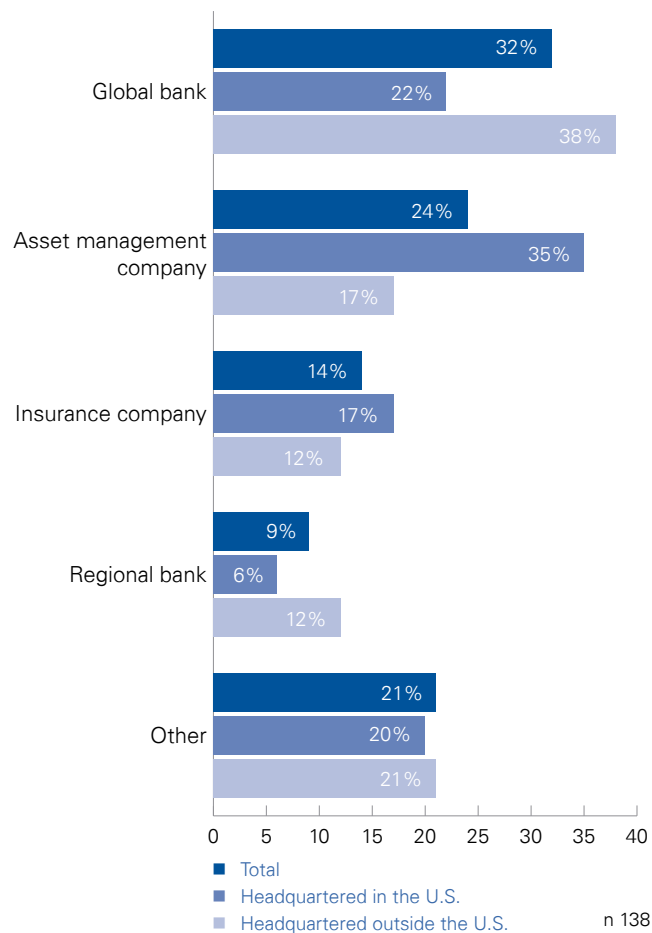
Over the next few years, FIs of different shapes, sizes, and locations will be grappling with CRS compliance. The consequences for noncompliance could be significant both financially and reputationally.

We hope this KPMG survey report sheds some light on what your peers are doing to get ready for the greatest age of international tax transparency the world has known. Because each financial institution is different, there is no single solution to this massive undertaking. For more background on our survey and ideas to help your team meet CRS requirements, contact your KPMG representative.

Demographics

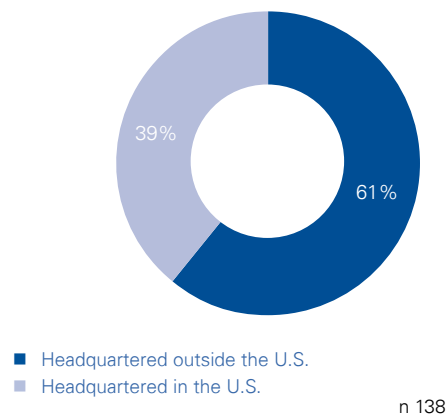
Q1

What category of financial institution do you belong to?



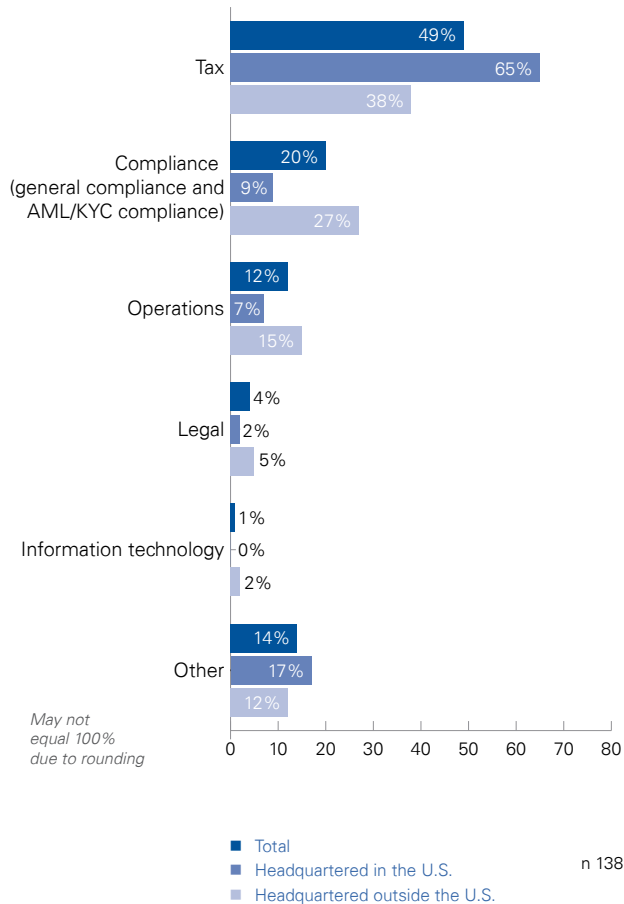
Q2

Is your institution headquartered in the United States or outside the United States?



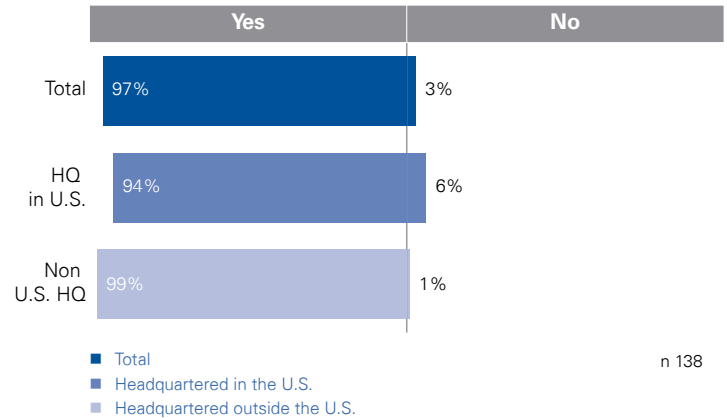
Q3

What group are you a part of in your organization?



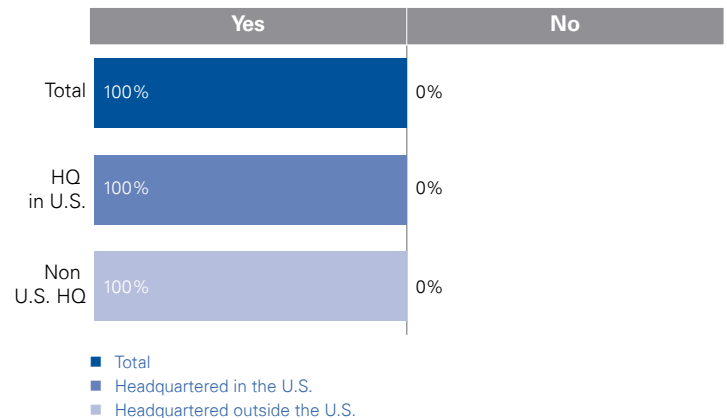
Q4

Do you believe that FATCA applies to your organization?



Q5

Do you believe that the OECD's Common Reporting Standard (CRS) or local rules based on it (the CRS) applies or will apply to your organization?



Methodology

In an effort to shed light on the extent and impact of the Common Reporting Standard on bank, asset management, and insurance professionals working to bring their financial institutions (FIs) into compliance, KPMG LLP conducted an electronic survey of tax and compliance professionals from the financial services industry both headquartered in the United States (39 percent) and headquartered outside the United States (61 percent).

The electronic survey was conducted between April 30 and July 1, 2015. The results presented are based on input from 138 respondents.



About KPMG LLP

KPMG LLP, the audit, tax, and advisory firm (www.kpmg.com/us), is the U.S. member firm of KPMG International Cooperative (“KPMG International”). KPMG International’s member firms have 162,000 people, including more than 9,100 partners, in 155 countries.

kpmg.com

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2015 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved. Printed in the U.S.A. The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International. NDPPS 400992